The costs of homeownership

"Homeownership, like baseball and hotdogs, is an integral part of American culture." So begins an article by Wenli Li and Fang Yang that calls into question the general American belief in homeownership as a net economic benefit ("American Dream or American Obsession? The Economic Benefits and Costs of Homeownership," Federal Reserve Bank of Philadelphia *Business Review*, third quarter 2010).

Li and Yang explain that the primary argument made in favor of homeownership is that it is the best way for many people to save money: in purchasing a home, people force themselves into making mortgage payments, thereby increasing their share of ownership in the property relative to the bank's share. However, financial developments over time have decreased the strength of this argument. For example, there are interest-only mortgage contracts, which make it possible for households to pay nothing but interest for a number of years. Even when people have built equity, many of them are able to tap it to pay bills. In addition, housing wealth affects people's marginal propensity to consume: for every dollar of appreciation in house prices, homeowners spend somewhere between 3 cents and 10 cents more than before. Interestingly, the tax benefits for second homes are similar to those of first homes as long as certain conditions are met. The authors contend that one of the effects of these government subsidies is more flipping of investment properties.

Homes are often thought of as relatively safe investments that tend to perform very well in the long run, but Li and Yang aver that this is a myth. Although the U.S. housing market as a whole is not very volatile, local housing markets can be quite volatile. Even if the growth in the value of a house is in line with the national average, however, it can be easy to lose money. From 1975 to 2009, the real rate of return of the national house price index was 1.3 percent; if one assumes a 2.5-percent annual depreciation rate, a 1.5-percent property tax rate, a 7-percent mortgage interest rate, and a 25-percent marginal income tax rate, the real rate of return on a typical home actually drops below zero (to −0.575 percent).

Li and Yang also make the point that homeownership can decrease mobility and that mobility is a condition for an efficient labor market. People tend to be especially averse to selling their homes and moving when doing so would incur a loss. In conclusion, the authors state that "homeownership is not for everyone" and that "the case for trying to achieve a nation of homeowners needs to be rethought."

The job market for new Ph.D. economists

In the early 1970s, most economics departments at U.S. colleges and universities did not advertise for entry-level assistant professor positions. Instead, they used methods such as word of mouth and letters of inquiry to fill their job vacancies. This led to a relatively thin job market for new Ph.D. economists and an allocative inefficiency—it was more a problem of *matching* or coordination than one of supply. Colleges and universities had to choose from a fairly small number of candidates, and people who had recently received their Ph.D. in economics found the job-search process difficult and time consuming. In an effort to improve the process, the American Economic Association (AEA), the leading professional organization for economists, began publishing *Job Openings for Economists* in 1974. The organization also sponsors annual recruiting conventions that bring together candidates and employers. To further facilitate the job-search process, in 2005, the AEA created the Ad Hoc Committee on the Job Market to study the issue and make recommendations.

In an article in the fall 2010 issue of the *Journal of Economic Perspectives* titled "The Job Market for New Economists: A Market Design Perspective," the members of the committee published the results of a study they conducted that analyzes the job market for new Ph.D. economists from 2006 to 2009. The study focuses on two mechanisms that were widely adopted several years ago at the committee's suggestion: (1) a "signaling service" in which job applicants can send expressions of interest to two employers before the annual conference, and (2) a later, Web-based "scramble" that attempts to match candidates who are still on the market with employers that still have job openings.

One of the coordination problems discussed in the article results when candidates "fall through the cracks," which occurs when an employer declines to make an offer because it believes the candidate is unattainable.

In one of the surveys the authors conducted, they found that 83 percent of economics departments reported that their Ph.D. recipients were at times denied interviews because the employers saw them as "excessive longshots." In their analysis of the signaling service, the authors found that higher ranked departments receive more signals than lower ranked ones, although signals are sent to departments of all ranks. But they also found a "clear tendency" among students from higher ranked departments to send signals to lower ranked departments. One of the most interesting findings from the study is that "geography trumps employer rank"—13 of the top 21 signal recipients were located in Boston, New York, Washington, DC, and California, but only 7 of the 21 were among the top 21 programs in terms of academic rank. The study also found that the Web-based scramble service resulted in roughly half of the employers initiating an interview with a job candidate in the later stages of the annual hiring process. The authors used the survey data and statistical modeling to estimate the likely effects that the two mechanisms were having on the job market; they found that the signaling and scrambling services provided by the AEA facilitated the matching of employers with candidates and improved the job-search process overall. □